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BRIEF TO BE PRESENTED TO THE MINISTER OF STATE FOR FINANCE THE HONORABLE JOHN MCDERMID

ON BEHALF OF

THE FEDERATION OF CANADIAN MUNICIPALITIES

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1. GENERAL STATEMENT ON PROPERTY TAX

The primary source of revenue for Canadian municipalities in all provinces and territories is property tax. While recognizing the fiscal pressures bearing upon the Government of Canada and upon some provinces, it is the policy of the Federation that it is inappropriate to transfer any more of the burden of public sector financing to the property tax base.

Property tax is regressive in that those who must pay it are not distinguished according to income levels. Any substantial transfer of public sector finance sources to the property tax will have the effect of forcing those less able to pay, particularly home owners of modest means, to reduce their standard of living or to seek shelter in publicly supported housing. Canada is well served when the highest number of Canadians are in a position to own and live in their own houses.

The federal government is currently acting in many

areas so as to transfer to municipal property

taxpayers a larger share of financing public sector activities.

2. SALES TAX REFORM

The proposals on sales tax embodied in the White Paper on Tax Reform of June 1987 on the matter of sales tax would have resulted in massive property tax increases in every province and territory. Municipalities would be forced to pay tax on a broad range of goods and services not currently taxed and to pay tax on in-house operations if such operations are typically provided by the private sector.

In a meeting in December, 1987, the Federation conveyed its profound concerns to the Minister of Finance, the Honorable Michael Wilson. Shortly thereafter the Minister acknowledged the merit of the FCM's case and committed that municipalities would pay no greater tax after the implementation of sales tax reform.

The Federation is in the process of engaging tax advisors to consider the mechanisms whereby Mr.

Wilson's commitment can be implemented. We seek a renewed commitment from the Government of Canada that the work to be conducted by the Federation's advisors will proceed in consultation with representatives of the Department of Finance and will be given full and reasonable consideration by the Department.

3. TELECOMMUNICATIONS TAX

Whether or not the new tax on telecommunications services is considered part of tax reform, the fact is that it has resulted in a huge new burden on municipal governments which are a prime consumer of telecommunications services. This reality appears to contradict the Minister's commitment that there would be no new tax burden on municipal governments.

4. FREQUENCY OF REMITTANCES OF SOURCE DEDUCTIONS

We again state our concern about the costs associated with the increased frequency of remittances for source deductions of federal income tax. In an effort to improve its cash flow situation, the current Government has twice changed the frequency of these remittances, first from one month to two-week intervals and now to

one week. The Government must be aware that significant new administrative costs ensue from this

change. It is estimated, for example, that the latest change will cost the City of Edmonton $365,000 per annum.

5. INFRASTRUCTURE DEVELOPMENT

The Government is aware of the Federation of Canadian Municipalities' proposal for a five-year, $15 billion investment program for Canadian municipal infrastructure. For several decades the Government of Canada was a major participant in infrastructure renewal, but such is no longer the case. We put forward the following reasons for federal participation:

a. The program is badly needed.

b. The federal government stands to benefit from the 4frevenues such a program will generate.

c. A variety of federal initiatives in the environmental area, particularly the new Environmental Protection Act and the Fisheries

Act, entail huge costs for municipalities. In other countries, including the United States, when federal actions necessitate large

expenditures by local governments, those expenditures are offset in part by federal contributions. It is evident that without federal support essential sewage treatment systems will not be installed. The recent federal announcement of funds in support of sewage treatment facilities in Halifax appears to recognize the reality. Yet countless other communities needing such funding are receiving nothing.

Canada's commitment to a cleaner environment can only be achieved through enhanced sewage treatment installations.

d. Federal policies which allow for the abandonment of rail lines are transferring huge new costs to municipalities for the maintenance of municipal roads. These costs result from the increased bus and truck traffic.

e. While the Federation is not unaware of the need to reduce the federal deficit, the proposed

infrastructure program calls for an investment on the part of the federal government of no more than $1 billion per year.

f. The infrastructure proposals should be considered in the context of the Free-Trade Agreement. Investors seeking to build new industrial facilities, no longer constrained by tariff barriers, can now choose equally between Canada or the United States. Many American cities have a variety of comparative advantages, particularly lower taxes and labour costs. Canada should view the quality of its communities and their infrastructure as one of its strategic advantages. We believe there will be serious economic implications if this strategic advantage is lost.

6. TRANSPORTATION ISSUES

We remind the federal government of the importance of constructing grade separations in many locations across Canada. With increased road traffic, the absence of grade separations where they are needed constitutes an impediment to economic efficiency and a threat to safety. In recent years there has been no significant

program for the development of new grade separations. While commending the new formula for cost sharing for grade separations, the Federation hopes that the

federal government will not ignore its responsibility to initiate the construction of new separations.

As we have noted above, rail line abandonment and the erosion of rail passenger service both constitute transfer of costs to municipalities since roads are being used more and more. In addition to maintaining rail lines for freight traffic, the FCM urges the Government of Canada to move vigorously to re-equip VIA Rail so that rail may become once again a major vehicle for passenger movement within Canada.

7. ECONOMIC ADJUSTMENT/COMMUNITY CROSSROADS

The Federation of Canadian Municipalities is concerned about the plight of small and medium sized towns which are dependant on a single industry for their survival. Fluctuations in world prices and global rationalization measures regularly lead to shut downs of local sources of production with little or no warning; this frequently leaves residents with the difficult course of abandoning their communities and seeking a livelihood elsewhere.

Such dislocations exact a serious toll on individuals and families and have proven costly to all orders of government. Much can be done to alleviate such problems if community

development is undertaken before a crisis develops.

In its efforts to encourage single industry communities to plan for diversification, it has become apparent to the FCM that there is currently no department of the Federal Government which is responsible for pro-active community development. This is a serious gap especially considering the frequency of industrial adjustments taking place at present and the increased level of adjustments which can be expected in the future as a result of free trade.

The program which comes closest to meeting community development needs is the Community Futures program of Employment and Immigration Canada. Unfortunately this program is reactive and addresses itself to those communities already experiencing economic difficulties instead of encouraging communities to put their house in order before local jobs are eliminated.

FCM is endeavouring to provide communities with the

tools they need to take control of their own economic planning through the Community Crossroads Program. It is important for the Government to recognize community development as a high priority and to assign responsibility for the funding of preventative measures

that will help municipalities to put these processes in place.

The thrust of Community Crossroads is not to press for increased government spending but to point out the opportunity for a rationalized use of funds. Under present programs, the concept of preventative effort at the community level is not recognized and this points up the need in our view for an urgent policy change.

8. HOUSING

The Federation frequently meets with CMHC to review the Government of Canada's housing programs. A number of suggestions go to CMHC each year about the administration of these programs.

It is not necessary on this occasion to review the specific details of FCM's recommendations on housing

programs. What is important is to reassert that housing affordability is a major issue in Canada. If Canadians from all walks of life are to have access to adequate shelter, the Government of Canada must play a lead role in the provision of social housing where that

is necessary and must, through the Residential Rehabilitation Assistance Program, use its resources to encourage Canadians to renew existing housing. Current funding allocations to both social housing and RRAP fall short of real needs by a large margin. While recognizing the tremendous pressures upon the Government of Canada's finances, quality housing is a basic need of all people. The FCM urges the Government of Canada to increase funding for housing programs.

9. PROGRAMS JOINTLY SPONSORED BY THE GOVERNMENT OF CANADA AND THE FEDERATION OF CANADIAN MUNICIPALITIES.

FCM has achieved a new and exciting level of cooperation with a variety of federal departments. We underline our satisfaction with these arrangements and to point to the value of such cooperation in the future.

In the context of a federal government interested in

constraining its establishment, a variety of departments are cooperating with FCM on a number of program objectives. In many cases these objectives are being achieved at much less than the cost than would have been the case if the federal government had proceeded on its own.

a. FCM is cooperating closely with the Canadian International Development Agency in delivering a variety of community and urban aid activities in China, Africa and in other developing areas.

b. FCM is cooperating with the Secretary of State in enhancing the capacity of municipalities in the areas of race relations, of bilingual services and access for the disabled.

c. FCM is cooperating with CMHC in a program to examine regulations in the housing sector as these relate to affordability.

d. As mentioned above, FCM is cooperating with Employment and Immigration in a program to diversify the economies of single industry towns through the Community Crossroads Program.

The FCM commends to the Government's consideration the notion of expanding cooperative activity as one method of controlling the size of the federal establishment and of containing expenditures.